Ontario Mortgage and Housing Corporation

2008/09 Annual Report

Ministry of Municipal Affairs and Housing

Office of the Minister

777 Bay Street, 17th Floor
Toronto ON M5G 2E5
Tel. 416 585 7000
Fax 416 585 6470
www.ontario.ca/MAH

Ministère des Affaires municipales et du Logement

Bureau du ministre

777, rue Bay, 17e étage
Toronto ON M5G 2E5
Tél. 416 585 7000
Téléc. 416 585 6470
www.ontario.ca/MAH

TO THE LIEUTENANT GOVERNOR
OF THE PROVINCE OF ONTARIO

MAY IT PLEASE YOUR HONOUR:

For the information of Your Honour and the Legislative Assembly, I am presenting the Annual Report of the Ontario Mortgage and Housing Corporation for the fiscal year 2008–09.

Respectfully submitted,

Jim Bradley
Minister

Ontario Mortgage and Housing Corporation
777 Bay Street, 2nd Floor
Toronto ON M5G 2E5
Tel: (416) 585-6455
Fax: (416) 585-7330

Societe ontarienne d'hypotheques et de logement
777, rue Bay, 2e étage
Toronto ON M5E 2E5
Tél: (416) 585-6455
Télécopieur: (416) 585-7330

Ontario

Ontario Mortgage and Housing Corporation

Société ontarienne d'hypothèques et de logement

TO THE HONOURABLE JIM BRADLEY,
MINISTER OF MUNICIPAL AFFAIRS AND HOUSING

MINISTER:

On behalf of the Board of Directors, I am pleased to present a copy of the Ontario Mortgage and Housing Corporation's (OMHC) Annual Report for the fiscal year 2008/09.

Respectfully submitted,

Pam Skinner
Vice Chair
Ontario Mortgage and Housing Corporation

Attachment

Message from the Chair

I would like to thank my colleagues on the Board, the officers of the corporation, and ministry staff for their contribution to the corporation.

This year we said good-bye to Board Member Elizabeth McLaren. Two new members were appointed, myself and Robert Taylor. I was also appointed Chair of the Board. Also, this year Mr. James Cassamatis was appointed Treasurer of the Corporation after the retirement of former Treasurer Mr.Robert Balaban.

Over the years, OMHC has built its success on a foundation of good governance. It's a solid foundation on which to build through our commitment to continuous improvement.

Ontario Mortgage and Housing Corporation upholds the highest priorities of integrity, transparency, accountability, efficiency and superior performance.

In 2008/09 Ontario Mortgage & Housing Corporation continued to manage and administer its obligations related to former housing programs, including debt retirement, legal and environmental obligations related to its former public housing land and properties.

A new Memorandum of Understanding with the Ministry of Municipal Affairs and Housing was signed in June 2008 and OMHC's By-law #1 was updated to include the previous By-law #1 and By-law #2. This fiscal year there were five potential environmental liability issues identified of which two claims were received and addressed (Thunder Bay and Minaki). The current active requests for environmental cleanup for consideration of the Board are located in Kenora, Toronto, York and Stratford.

This year, the last public housing properties not transferred in 2001 because of an outstanding legal matter were transferred to the municipality. The transfer of the Sarnia properties was completed in 2008.

Bursary awards to a maximum of $3,000 are awarded to full-time students, and a maximum of $1,000 is available to part-time students. In 2008/09, a total of 931 full and part-time bursaries were awarded to students living in rent-geared-to-income housing in Ontario. The amounts awarded were $1,300.00 for a full-time student and $440 for a part-time student.

The amount of the Dr. Albert Rose Bursary funds available this year was $1.15 million allocated to OMHC by the Ministry of Municipal Affairs and Housing for the bursary and $30,000 bequeathed to the Bursary from the estate of an Ontario resident. In addition, the County of Dufferin contributed an additional $250 per student for those students living in their service area.

Kathleen Blinkhorn
Chair

OMHC BOARD OF DIRECTORS

The OMHC Board of Directors is appointed by the Lieutenant Governor-in-Council and accountable to the Minister of Municipal Affairs and Housing for ensuring that the corporation effectively carries out its mandate.
A five-member board, six at the December 2008 meeting, of public servants oversaw the corporation's business.

In 2008/09, the board consisted of:

- Kathleen Blinkhorn, (Chair, Director) Assistant Deputy Minister, Ministry of Municipal Affairs and Housing
- Pam Skinner, (Vice-chair, Director) Assistant Deputy Minister, Business Management Division, Ministry of Municipal Affairs and Housing
- Elizabeth McLaren (Director) Assistant Deputy Minister, Municipal Services Division, Ministry of Municipal Affairs and Housing;(Retired December 31, 2008)
- Dana Richardson (Director) Assistant Deputy Minister, Local Government and Planning Policy Division, Ministry of Municipal Affairs and Housing;
- Janet Hope (Director),Ministry of Community & Social Services, Planning & Strategic Policy Branch
- Robert Taylor (Director) Assistant Deputy Minister, Municipal Services Division, Ministry of Municipal Affairs and Housing effective October 1, 2008

MANDATE

OMHC's mandate is addressed under four statutes: the *Ontario Mortgage and Housing Corporation Act, 2006*; the *Housing Development Act*; the *Ministry of Municipal Affairs and Housing Act*; and the *National Housing Act*.

The Corporation has the capacity to own land, to borrow, to lend, to issue debentures, and to enter into agreements on behalf of the Crown. Such actions are made with the approval of the Lieutenant Governor.

The current mandate includes maintaining debt retirement obligations, debt service administration for all loans and consolidated debentures pertaining to the Public Housing/Student Residences Programs and the Canada Pension Plan Fund, carrying out legal requirements related to former public housing and currently owned properties and any other duties assigned by the government.

ACTIVITIES IN 2008-09

OMHC addressed its financial obligations related to debt retirement and debt service obligations related to former housing programs and the former public housing portfolio and administered a revolving loan fund for the provincial Affordable HomeOwnership Program of the Canada-Ontario Affordable Housing Program Agreement.

OMHC is liable for all legal matters associated with its former public housing portfolio including environmental liability under the *Environmental Protection Act* (EPA). In 2008-09 two environmental claims were addressed.

OMHC also holds harmless Canada Mortgage and Housing Corporation as it relates to certain non-profit housing corporation mortgages in the event of default of those mortgages. No claims have been made to date under this obligation.

OMHC awarded 931 bursaries under the Dr. Albert Rose Bursary Program to students living in rent-geared-to-income housing, facilitating the pursuit of their academic career.

ADMINISTRATION OF THE PUBLIC HOUSING DEBT

To finance the development of public housing projects, OHC obtained capital funding in the form of loans on each project from the Canada Mortgage and Housing Corporation and the province. There were twenty-nine (29) consolidated debentures that would mature between 2003 and 2028. Nine debentures matured between 2003 and 2008 with twenty (20) remaining. While the public housing projects were transferred to the municipal local housing corporations, OMHC continues to administer the corporation's existing financial and debt retirement obligations, including debt service administration relating to all loans and consolidated debentures.

ADMINISTRATION OF LOANS TO COLLEGES AND UNIVERSITIES

Between 1969 and 1972, OMHC (formerly Ontario Housing Corporation - OHC) advanced loans to twenty (20) colleges and universities for the development of on-campus student housing. Funding for these loans was obtained from the Canada Mortgage and Housing Corporation and the Province. As security for these loans, OMHC obtained leases on the land. Though these loans reach maturity between 2019 and 2024, the institutions can make early repayment at any time without penalty or bonus. As the loans are fully re-paid, title to the property is transferred from OMHC to the college or university.

ONGOING LIABILITY FOR PUBLIC HOUSING PROPERTIES

OMHC is responsible for addressing legal matters pertaining to its previously owned public housing properties.

This responsibility includes any potential environmental liability (contamination) issues, should they arise, as per provisions in the *Environmental Protection Act*. For any environmental issues identified and confirmed to have existed at the time of transfer of the public housing portfolio to the control of municipal service managers, OMHC will be required to undertake whatever actions are deemed necessary by the Ministry of the Environment to rectify the problem. Incidences of this nature are expected to be quite

rare. To date there has been five potential liability issues of which two claims were received and addressed (Thunder Bay and Minaki). There are currently four ongoing claims that include two new claims in 2009 pre March 31, 2009 (York Region, County of Dufferin). In 2008, OMHC received three new requests to cover the cost of remediating environmental contamination found on former OMHC properties located in the Minaki, Thunder Bay and Newmarket. Minaki and Thunder Bay have been resolved.

There are currently seven known contaminated sites four sites in the Central Region; one Southern, one Northern and one in the Eastern Region). There are four inert and three active projects that staff will continue to track.

The Corporation is developing a disposition plan to transfer parcels of land in OMHC's name used for access roads/walkways and narrow strips of land adjacent to municipal properties to the appropriate municipalities. The transfer of the Sarnia properties was completed in fiscal 2008.

DR. ALBERT ROSE BURSARY PROGRAM

In 2008, a total of 931 full and part-time bursaries were awarded to students living in rent-geared-to-income housing in Ontario. The amounts awarded were $1,300.00 for a full-time student and $440 for a part-time student.

The Dr. Albert Rose Bursary Program established in 1984 provides financial assistance to social housing tenants in Ontario to enable them to pursue educational and training opportunities. Bursary awards to a maximum of $3,000 are awarded to full-time students, and a maximum of $1,000 is available to part-time students. The amount of the Bursary fund available this year was $1.15 million allocated to OMHC by the Ministry of Municipal Affairs and Housing for the bursary and $30,000 bequeathed to the Bursary from the estate of an Ontario resident.

In addition, the County of Dufferin contributed an additional $250 per student for those students living in their service area. Any under spending in the program through students not pursuing their education was redistributed to the other recipients.

NATURE OF OPERATIONS

Under the *Social Housing Reform Act 2000*, the Corporation transferred, for no consideration, ownership of public housing units to Local Housing Corporations (LHCs) which are controlled by Municipal Services Managers. The Corporation retained its Investment in Student Housing and certain other assets, and responsibility for administering the Corporation's debts, the Non-Profit Housing Fund, and contingent liabilities. The Ministry of Municipal Affairs and Housing (the Ministry) provides the Corporation with subsidies to cover its debt service payments and other expenses.

1. SIGNIFICANT ACCOUNTING POLICIES

These financial statements are prepared in accordance with Canadian generally accepted accounting principles. Significant accounting policies followed by the Corporation are summarized below:

i. Revenue

Subsidies from the province are accounted for as revenue, and revenue is recognized when the related expenses are incurred.

ii. Financial Instruments

The Corporation's financial instruments are classified into one of five categories: held-for-trading, held-to-maturity, loans and receivables, available-for-sale, or other financial liabilities. The classification and method of measurement adopted for the Corporation's financial instruments, including amounts held in the Non-Profit Housing Fund (NPHF), are as follows:

- Cash is classified as held-for-trading and is measured at fair value.
- Accrued Interest from Universities and Colleges, amounts due from the Province of Ontario, and Interest Receivable (NPHF – note 3) are classified as loans and receivables and are measured at cost, which due to their short-term nature, approximates their fair values.
- Investments in Properties, Loans to the Province of Ontario (NPHF – note 3), and Mortgages to Universities and Colleges (NPHF – note 3) are classified as loans and receivables and are measured at amortized cost. Their fair values are disclosed in note 9.
- Accounts Payable and Accrued Liabilities, and Interest Payable (NPHF – note 3) are classified as other financial liabilities and are measured at cost, which due to their short-term nature, approximates their fair value.
- Long-Term Debt, which consists of loans from the Province of Ontario and Canada Mortgage and Housing Corporation debentures (note 4), and Canada Pension Plan Investment Fund Debentures (NPHF – note 3) are classified as other financial liabilities and are measured at amortized cost. Their fair values are disclosed in note 9.

iii. Accumulated Deficit

The Accumulated Deficit that resulted from the transfer of properties to LHC's for no consideration is reduced each year by an amount equal to the portion of the subsidy from the province required to cover principle payments on the Corporation's long-term debt.

iv. Statement of Cash Flows

A statement of cash flows has not been included in these financial statements because the information it would provide is readily apparent from the other financial statements and accompanying notes.

v. Change in Disclosure

Section 1535 of Canadian Institute of Chartered Accountants Handbook, "*Capital Disclosures*" requires disclosure of the Corporation's objectives, policies and processes for managing capital as well as compliance with any externally imposed capital requirements. The standard applies to the corporation's fiscal years beginning April 1, 2008. The implementation of this standard did not have any impact on the Corporation's results of operations or financial position. The new disclosures are presented in Note 10.

2. INVESTMENTS IN PROPERTIES

The Corporation's investments in properties are as follows:

		Mar 31 2009 $	Mar 31 2008 $
		(thousands of dollars)	
(a)	Student Housing	18,232	19,315
(b)	Provincial Housing	902	957
		19,134	20,272

(a) Student Housing

This investment represents funds advanced to universities and colleges to cover building costs for student accommodation projects. Each advance is associated with a specific long-term debt obligation of the Corporation and each educational institution makes semi-annual payments to the Corporation equal to the payments on the Corporation's corresponding long-term debt. When the debt is fully repaid, title to the properties will be transferred to the respective institutions.

	Mar 31 2009 $	Mar 31 2008 $
	(thousands of dollars)	
Original Cost	35,115	35,115
Less: Accumulated Capital Repayments	16,883	15,800
	18,232	19,315

(b) Provincial Housing

All properties have been transferred to municipal LHCs except one for which certain legal issues have not been resolved. The funds advanced to cover the cost of this project are associated with a specific long-term debt obligation of the Corporation and the Corporation receives a subsidy from the Province equal to the annual payment on this debt.

	Mar 31 2009 $	Mar 31 2008 $
	(thousands of dollars)	
Original Cost	1,262	1,262
Less: Accumulated Capital Repayments	360	305
	902	957

3. NON-PROFIT HOUSING FUND

The Province of Ontario ("The Province") authorized the Corporation to borrow funds from the Canada Pension Plan Investment Fund and loan the funds as mortgages to non-profit housing corporations and universities and colleges to build, acquire or lease housing units. The CPP funds were borrowed from 1989 to 1992 and are repayable 20 years from the date of issuance of the debentures. Interest is payable semi-annually at various rates based on individual debentures – weighted average rate of 10.3%.

The majority of the CPP funds were initially loaned to non-profit housing corporations. However, during the 1993-2000 period, these loans were refinanced in the private sector and, because the debentures could not be repaid ahead of their maturity dates, the funds were loaned to the Province. The CPP debentures have corresponding loans receivable with the same maturity date and the Fund will be wound up in July 2012 when all debentures have matured.

The maturity dates of the debentures are as follows:

Debenture No.	Amount	Maturity Date
CP-1	$6,000,000	4-Aril-2009
CP-2	25,000,000	5-May-2009
CP-3	20,000,000	2-Jun-2009
CP-4	25,000,000	7-Jul-2009
CP-5	58,000,000	4-Aug-2009
CP-6	11,907,000	8-Sep-2009
CP-7	21,547,000	6-Oct-2009
CP-8	118,658,000	1-Nov-2009
CP-9	24,327,000	4-Dec-2009
CP-10	125,544,000	2-Mar-2010
CP-11	188,605,000	4-Apr-2010
CP-12	267,561,000	3-May-2010
CP-13	65,000,000	5-Jun-2010
CP-14	167,573,000	5-Jul-2010
CP-15	8,862,000	2-Aug-2010
CP-16	60,919,000	2-Nov-2010
CP-17	35,937,000	4-Dec-2010
CP-18	30,000,000	9-May-2011
CP-19	32,000,000	6-Jun-2011
CP-20	7,000,000	5-Jun-2012
CP-21	23,900,000	10-Jul-2012
	$1,323,340,000	

As of March 31, 2009 the Fund consisted of:

	Mar 31 2009 $	Mar 31 2008 $
	(thousands of dollars)	
Assets		
Cash	1,406	1,400
Loans to Province of Ontario	1,157,212	1,157,212
Mortgages to Universities and Colleges	166,128	166,128
Interest Receivable	44,435	44,771
	1,369,181	1,369,511
Liabilities and Fund Balance		
Canada Pension Plan Investment Fund:		
Current Portion	435,983	-
Long-term Portion	887,357	1,323,340
Interest Payable	45,803	46,139
Fund Balance	38	32
	1,369,181	1,369,511

The interest rates on the mortgages to universities and colleges are the same as those payable on the Corporation's corresponding debentures. However, the interest rates on the loans to the Province reflect the lower rates in effect at the time they were made and thus the interest payments are not sufficient to service the debentures. The Corporation receives an interest differential subsidy from the Ministry of Municipal Affairs and Housing to cover the shortfall.

Details of the transactions related to the fund balance are as follows:

	Mar 31 2009 $	Mar 31 2008 $
	(thousands of dollars)	
Balance – Beginning of Year	32	21
Interest Earned – Loans, Mortgages, Bank	119,095	119,101
Interest Differential Subsidy from the Ministry of Municipal Affairs and Housing	16,888	16,888
Interest Paid on CPP Debentures	(135,977)	(135,978)
Balance – End of Year	38	32

4. LONG TERM DEBT

Long term debt is comprised of the following:

	Mar 31 2009 $	Mar31 2008 $
	(thousands of dollars)	
Canada Mortgage and Housing Corporation	663,557	704,906
Loans Repayable to Province	78,785	83,928
	742,342	788,834
Less: Current Portion	49,374	46,503
	692,968	742,331

The Corporation borrowed funds from the Canada Mortgage and Housing Corporation (CMHC) and received capital funds from the Province of Ontario to finance investments in real property – now devolved to Local Housing Corporations. The capital funds provided by the Province, which had previously been included in Contributed Surplus, have been reclassified as Loans Repayable to Province, with interest and principle payments being made to the Minister of Finance. The interest expense is included in the Statement of Operations and Accumulated Deficit and is off-set by the subsidy from the Ministry of Municipal Affairs and Housing.

Interest on both the CMHC debt and the Loans Repayable to Province is payable at various rates based on individual agreements – the weighted average rates are 6.6% and 7.1% respectively (2008 – 6.6% and 7.1% respectively). Interest expense for the fiscal year ended March 31, 2009 totalled $52.1 million (year ended Mar. 31, 2008 – $55.5M), $6.0 million (year ended Mar. 31, 2008 – $6.3M) of which was paid to the Province.

Scheduled payments of principal and interest over the next five fiscal years are as follows:

	CMHC Debentures	Loans Repayable to Province	Total
		Thousands of dollars	
2010	89,924	11,167	101,091
2011	89,202	10,949	101,151
2012	88,033	10,766	98,799
2013	87,820	10,700	98,520
2014	86,732	10,482	97,214

5. CONTINGENT LIABILITIES

a) The Corporation previously entered into loan insurance agreements with CMHC pertaining to mortgage loans on projects funded under various provincially-funded non-profit housing programs administered by the Ministry. Under these agreements, CMHC has insured mortgage loans made by lenders approved under the National Housing Act for the purpose of purchasing, improving, constructing or altering housing units. While the insurance is provided by CMHC, the Corporation is liable to CMHC for any net costs, including any environmental liabilities, incurred as a result of loan defaults on projects funded by the Province. The Ministry of Municipal Affairs and Housing will reimburse any costs incurred by the Corporation. As of March 31, 2009, there were $4.3 billion (2008 – $4.4 billion) of mortgage loans outstanding on provincially funded projects. To date, there have been no claims for defaults on the insured mortgage loans.

Under the *Social Housing Reform Act*, the Corporation retained the liability for cleaning up environmentally contaminated sites within the former public housing portfolio. Although the total cost of potential remediation is unknown, the Corporation will be reimbursed by the Ministry of Municipal Affairs and Housing for costs incurred. Cumulative expenditures for site remediation to March 31, 2009 are $1,928,000 (2008 - $1,717,000). The Corporation had two outstanding claims as at March 31, 2009, which includes the multi-year Regent Park commitment. and one identified in York Region. Regent Park, formerly owned by the Corporation, is being re-developed by the Toronto Community Housing Corporation (TCHC) Based on the redevelopment plan prepared by TCHC, it is expected to take from 12 to 15 years for the six stages of redevelopment of Regent Park and environmental remediation may be required at each stage of redevelopment. The Corporation may spend up to 1,500,000M in 2009-2010 for environmental remediation.

6. BURSARY PROGRAM

The Dr. Albert Rose Bursary program is primarily funded by the province but may also receive additional funding from municipal service managers and other sources. The program offers financial assistance to rent-geared-to-income tenants in Ontario who wish to acquire a post-secondary education.

7. EXCESS OF REVENUES OVER EXPENSES

The subsidies from the Province include amounts intended to cover the interest and principle payments on the Corporation's long-term debt. The interest is included in the Corporation's expenses and the excess of revenues over expenses represents the principle payments.

8. RELATED PARTY TRANSACTIONS

The Corporation is controlled by the Province of Ontario and is therefore a related party to other organizations that are controlled by or subject to significant influence by the Province. Transactions with related parties were:

Loans to Ontario Colleges ($'000)

As of March 31, 2009, the outstanding balance due from colleges with respect to Student Housing loans (note 2) was $939 (2008 - $977) and Non-Profit Housing Fund mortgages (note 3) was $28,333 (2008 - $28,333). Total interest and principle payments received from colleges for both programs was $2,751 (2008 - $2,751).

Administrative Expenses

The Ministry of Municipal Affairs and Housing provides administrative services to the Corporation at no charge. The Corporation does not have any payroll expense as all personnel are Ministry's employees and are paid by the Ministry.

9. FAIR VALUE OF FINANCIAL INSTRUMENTS

The Canadian Institute of Chartered Accountants (CICA) implemented two new handbook sections for fiscal years starting on or after October 1, 2007: 3862 Financial Instruments – Disclosure; and 3863 Financial Instruments – Presentation. These sections replace section 3861 Financial Instruments – Disclosure and Presentation for many organizations and require more extensive disclosures including information about risk assessment, risk management procedures, and sensitivity analyses around each type of risk. However, the CICA provided non-publicly accountable enterprises with the option of continuing to use section 3861, and the Corporation decided to do so. Accordingly information about the Corporation's financial instruments and risks is as follows.

The Corporation is not exposed to significant credit risk as amounts classified as loans and receivables are due primarily from the Province of Ontario and publicly-funded Ontario colleges and universities.

The carrying amounts of short-term financial instruments approximates their fair values.

Long-term financial instruments consist of Investments in Properties (note 2), loans from the Province, CMHC debentures (note 4), and CPP debentures in the Non-Profit Housing Fund (note 3). The estimated fair values of the Investments in Properties, the CMHC debentures, and the CPP debentures in the Non-Profit Housing Fund are based on the future cash flows associated with each instrument discounted using an interest rate based on the market prices at March 31, 2009 for debt instruments with similar characteristics. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates. Consequently, the fair value estimates are not necessarily indicative of

the amount these instruments would trade for in actual market transactions.

At March 31, 2009 the estimated fair value of: Investments in Properties (note 2) approximated their book value of $19.1 million; CMHC debentures (note 4) exceeded their aggregate book value by $132 million (2008 – $134 million); and CPP debentures in the Non-Profit Housing Fund (note 3) exceeded their aggregate book value by $192 million (2008 – $238 million). Since the Corporation is controlled by the Province, the fair value of loans receivable from the Province (note 3 – $1.157 billion at March 31, 2009) and loans repayable to the Province (note 4 – $78.8 million at March 31, 2009) has not been calculated.

10. CAPITAL DISCLOSURES

The Corporation considers cash to be its capital. In managing capital, the Corporation's objectives are to ensure that sufficient cash is on hand to service its debts and pay its expenses. In this regard, the Ministry of Municipal Affairs and Housing ensures the Corporation's objectives are met by providing sufficient subsidies, as well as administrative services at no charge, to the Corporation.

The Corporation's investments in properties and non-profit housing fund loans are each associated with specific debt obligations of the corporation. Interest and principle payments received from the investments and loans are used to service the associated debts.

As at March 31, 2009 the Corporation has met its capital objectives and is not subject to any externally imposed capital requirements.